

L&T Finance Holdings | BUY

Retail scale up continues

LTFH reported consolidated profit of INR5.95bn (+12% QoQ, 47% YoY) above our estimate of INR 5.9bn. NII stood at INR17.3bn (+5% QoQ, +11% YoY,+5.5% JMFe) and PPOP at INR13.2bn (+11% YoY/QoQ, +6% JMFe). Overall loan growth remained flat sequentially as retail assets grew sharply by (+8% QoQ, +33% YoY) which was offset by (-34% QoQ, -75% YoY) de-growth in wholesale book. Retail assets now form ~88% of total loans. Mgmt. remains confident on scaling up its retail portfolio to ~90% of the overall lending book by next quarter led by continued traction in its identified segments of consumer loans (+63% YoY), rural micro/group loans (+37% YoY) and home loans (+34% YoY). Reported NIMs improved +56 bps QoQ at 8.62% as yields moved up +49bps QoQ at 15.2% and CoFs remained steady at 7.8%(+2bps QoQ). Asset quality outcome was also favourable with 77bps QoQ decline in GS3 led by 311bps QoQ improvement in wholesale GS3 and 16bps QoQ improvement in retail GS3. Mgmt. believes focus on analytics, cross sell to existing customer base and continued investments in its tech prowess should aid LTFH in delivering its targeted RoA of 2.8-3% on an overall level (with GS3<3%, NS3<1%). While LTFH's scale up of retail portfolio is encouraging, valuation upsides are contingent on sustainable RoE improvement and continued steady asset quality under the new leadership. We build in RoAs of 2.4% by FY25E. Maintain BUY with a TP of INR 145(1.3x FY25e P/BV).

- Continued scale up in retail loans:** While overall loan assets growth remained steady (+0.2% QoQ, -13% YoY), retail assets grew sharply by (+8% QoQ, +33% YoY) which was offset by (-34% QoQ, -75% YoY) de-growth in wholesale book. Retail book presently stands at ~88% of the loan book as against ~58% in 2QFY23. The growth in retail was led by SME Finance (+36% QoQ), rural micro/group loans (+37% YoY, +10% QoQ), LAP (+14% YoY, +8% QoQ), consumer loans (+63% YoY, +8% QoQ) and home loans (+34% YoY, +8% QoQ) whereas exposure to wholesale business was brought down (-75% YoY, -34% QoQ). Mgmt. had targeted to reach ~90% of total loans retailization by FY26 which is likely to reach by next quarter itself. We have built in a total AUM growth of 19% CAGR for FY23-25E with 30%+ retail book growth.
- Margins inch up on the back of higher yields:** NII stood at INR17.3bn (+5% QoQ, +11% YoY,+5.5% JMFe) as reported NIMs improved +56 bps QoQ at 8.6%. Yields moved up +49bps QoQ at 15.2% and CoFs moved up +2bps QoQ at 7.8%. Reported NIMs+Fees for retail book stood at 12.2% (+45bps QoQ). Higher opex on account of tech investments and employee costs led to a PPOP of INR 13.2bn (+11% YoY/QoQ both) and a PAT of INR 5.95bn (+12% QoQ/ +47% YoY/ +1.3% JMFe). While the slight inch up of 20-30bps in CoFs is expected, mgmt. remains focused on limiting any meaningful rise in its borrowing costs by using short term borrowings (CPs) while strong traction in its retail book would keep the yields range-bound. Opex is also likely to remain at similar levels as they continue to invest in tech while the decline in credit costs would lead to earnings CAGR of 39% for FY23-25E entailing 2.2%/2.4% ROAs for FY24E/FY25E.
- Healthy improvement in asset quality; large on-book provisions offer cushion:** LTFH's GS3 assets stood at 3.27% (down 77bps QoQ) primarily led by sequential decline of 311bps in wholesale GS3 at 4.5% and 16bps decline in retail GS3 at 3.1%. The provision cover on the same stands healthy at 76% (+424bps QoQ). Credit costs (annualized) moved up



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	145
Upside/(Downside)	9.4%
Previous Price Target	145
Change	0.0%

Key Data – LTFH IN

Current Market Price	INR133
Market cap (bn)	INR329.4/US\$4.0
Free Float	26%
Shares in issue (mn)	2,479.7
Diluted share (mn)	
3-mon avg daily val (mn)	INR1,359.6/US\$16.3
52-week range	141/79
Sensex/Nifty	64,572/19,282
INR/US\$	83.2

Price Performance

%	1M	6M	12M
Absolute	6.4	47.0	66.6
Relative*	8.8	36.7	54.3

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary

	(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Profit	9,709	10,701	16,233	24,620	31,573
Net Profit (YoY) (%)	-42.9%	10.2%	51.7%	51.7%	28.2%
Assets (YoY) (%)	-0.5%	-1.9%	-0.5%	14.7%	17.5%
ROA (%)	0.9%	1.0%	1.5%	2.2%	2.4%
ROE (%)	5.8%	5.5%	7.8%	10.9%	12.5%
EPS	3.9	4.3	6.5	9.9	12.7
EPS (YoY) (%)	-53.6%	10.0%	51.3%	51.7%	28.2%
P/E (x)	33.8	30.7	20.3	13.4	10.4
BV	76	81	87	96	107
BV (YoY) (%)	3.7%	6.1%	7.7%	10.3%	12.0%
P/BV (x)	1.75	1.65	1.53	1.39	1.24

Source: Company data, JM Financial. Note: Valuations as of 23/Oct/2023

(+25bps QoQ) at 2.63% of total AUM. We have built in an average credit cost of ~2% over FY24-25E. We believe the current PCR on stage.3 book is more than sufficient to absorb any major shocks in case going forward while the wholesale rundown infuses further comfort to the asset quality. Thus the retail book performance will be a key monitorable going forward given the strong growth trajectory in the segment.

- **Return metrics on the mend; maintain BUY:** We believe a) benign credit environment, b) tapping of underpenetrated customer base via cross sell products c) shift from wholesale to high return retail book d) healthy asset quality outcomes from reduction in wholesale book and e) reinforcement of new leadership would aid in improving RoAs of 2.2%/2.4% by FY24E/FY25E. Maintain BUY with a target price of INR145 (1.3x FY25e P/BV).

LTFH – 2QFY24 Performance Update

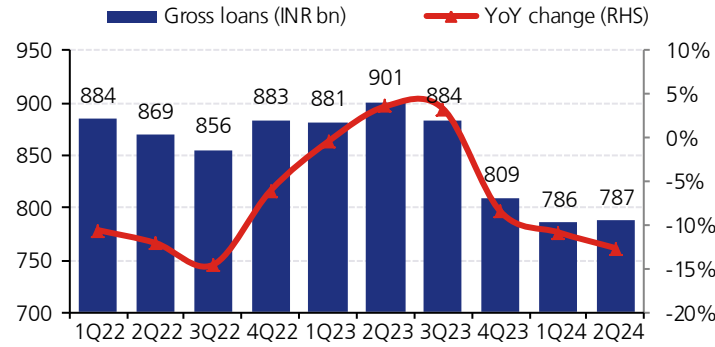
Exhibit 1. LTFH – 1QFY24 key financial highlights

Earnings Table (INR mn)	2Q'23	1Q'24	2Q'24	YoY (%)	QoQ (%)
Net Interest Income	15,640	16,440	17,290	10.5%	5.2%
Non-Interest Income	3,470	3,230	4,460	28.5%	38.1%
Total Income	19,110	19,670	21,750	13.8%	10.6%
Employees Cost	3,421	4,064	4,486	31.1%	10.4%
Other Operating Expenses	3,809	3,717	4,114	8.0%	10.7%
Total Operating Expenses	7,230	7,780	8,600	18.9%	10.5%
Operating Profit (PPP)	11,880	11,890	13,150	10.7%	10.6%
Total Provisions	5,750	4,750	5,170	-10.1%	8.8%
PBT	6,130	7,140	7,980	30.2%	11.8%
Tax	2,070	1,830	2,030	-1.9%	10.9%
PAT (Pre-Extraordinaries)	4,060	5,310	5,950	46.6%	12.1%
Balance Sheet Data (INR bn)					
Total loans	901.0	785.7	787.3	-12.6%	0.2%
Disbursements	110.5	123.7	137.0	24.0%	10.8%
Ratios Analysis (%)					
Cost to Income (%)	37.8%	39.6%	39.5%	1.71%	-0.01%
Effective Tax Rate (%)	33.8%	25.6%	25.4%	-8.33%	-0.19%
Credit Quality					
Gross Stage 3	35,910	31,720	25,750	-28.3%	-18.8%
Net Stage 3	16,150	9,070	6,270	-61.2%	-30.9%
Gross Stage 3 (%)	4.02%	4.04%	3.27%	-0.75%	-0.77%
Net Stage 3 (%)	1.85%	1.19%	0.82%	-1.03%	-0.37%
Coverage Ratio (Stage 3) (%)	55.0%	71.4%	75.7%	20.6%	4.2%

Source: Company, JM Financial

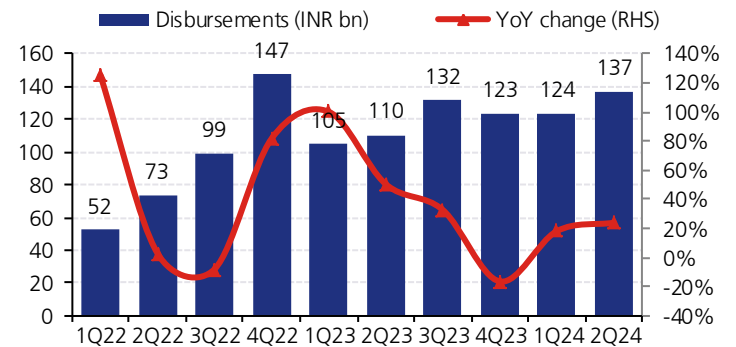
Quarterly trends

Exhibit 2. Gross loans driven by retail segment



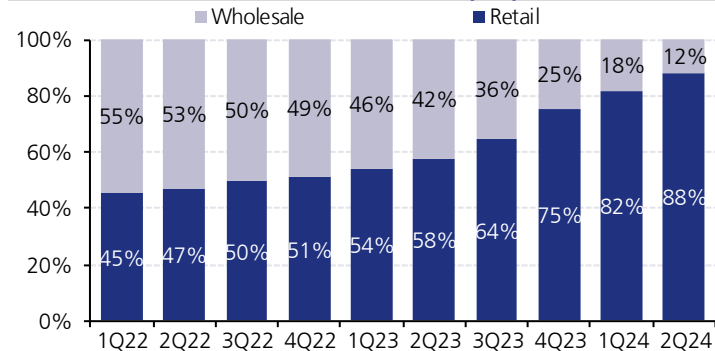
Source: Company, JM Financial

Exhibit 3. Decline in wholesale disbursements offset by retail



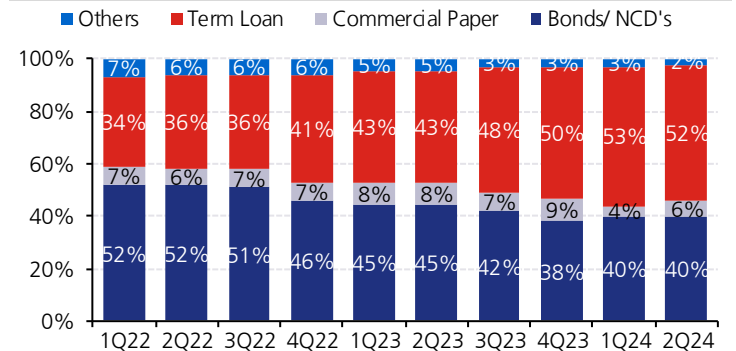
Source: Company, JM Financial

Exhibit 4. Share of retail loans now forms majority of the book



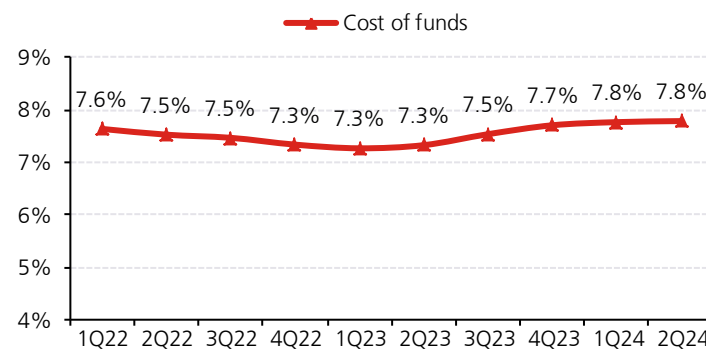
Source: Company, JM Financial

Exhibit 5. Share of term loans increased



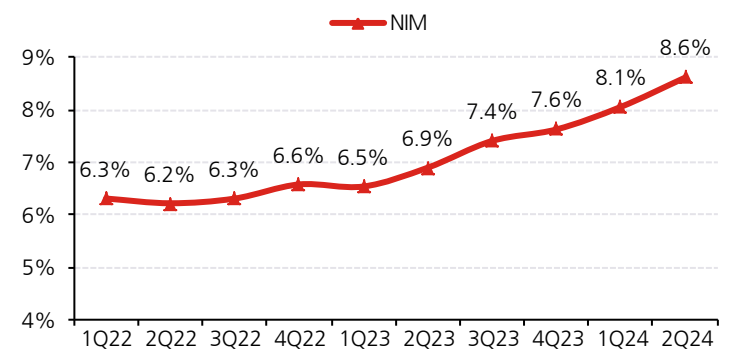
Source: Company, JM Financial

Exhibit 6. Trend in cost of funds



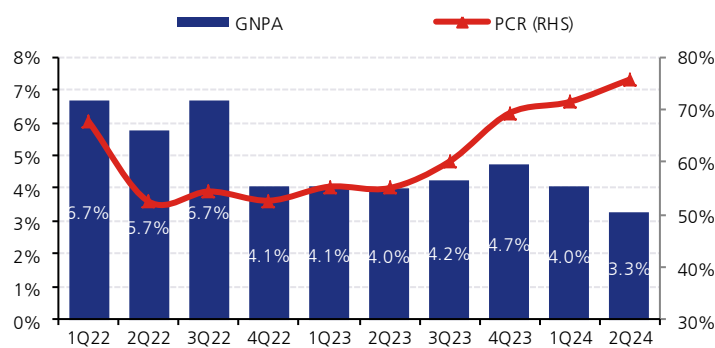
Source: Company, JM Financial

Exhibit 7. Trend in NIM margins



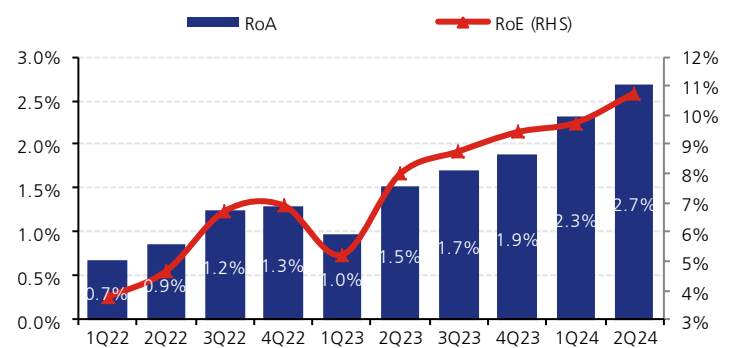
Source: Company, JM Financial

Exhibit 8. Healthy improvement in asset quality



Source: Company, JM Financial

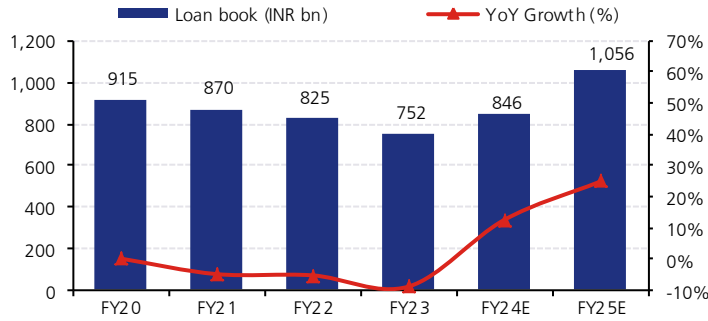
Exhibit 9. Improving return ratios



Source: Company, JM Financial

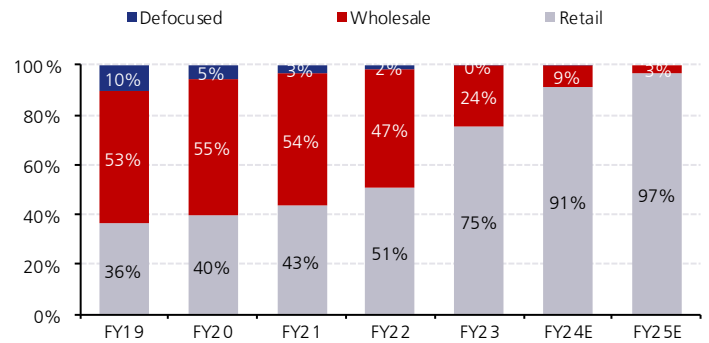
LTFH – Annual trends

Exhibit 11. LTFH: Trend in AUM (INR bn)



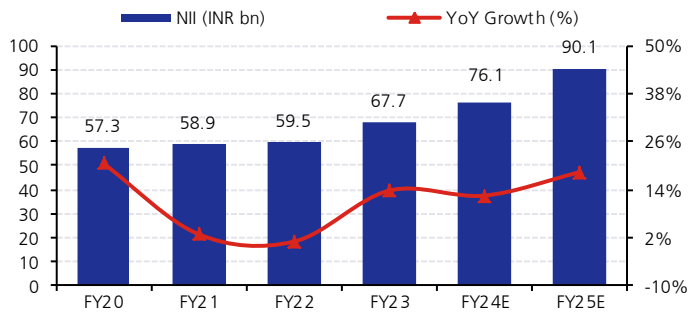
Source: Company, JM Financial

Exhibit 12. LTFH: Trend in AUM Mix



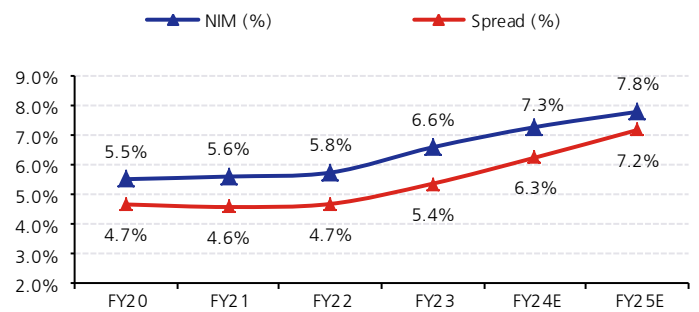
Source: Company, JM Financial

Exhibit 13. LTFH: Trends in NII



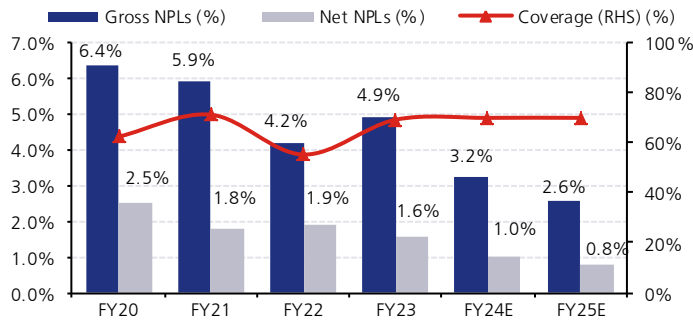
Source: Company, JM Financial

Exhibit 14. LTFH: Trends in margins



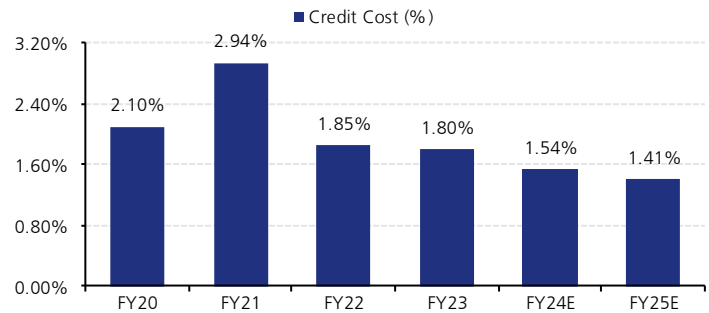
Source: Company, JM Financial

Exhibit 15. LTFH: Trend in asset quality



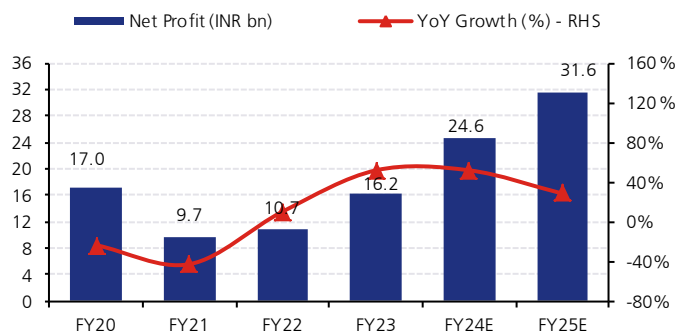
Source: Company, JM Financial

Exhibit 16. LTFH: Trend in credit costs



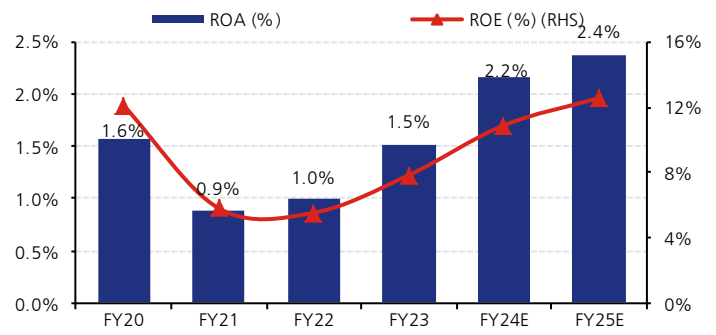
Source: Company, JM Financial

Exhibit 17. Trend in earning growth



Source: Company, JM Financial

Exhibit 18. Trend in return ratios



Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement						(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Net Interest Income (NII)	58,922	59,504	67,679	76,133	90,100	
Non Interest Income	2,281	-4,697	1,161	8,261	9,913	
Total Income	61,203	54,807	68,839	84,393	1,00,013	
Operating Expenses	18,693	22,636	28,334	33,884	39,148	
Pre-provisioning Profits	42,510	32,170	40,505	50,509	60,865	
Loan-Loss Provisions	28,432	20,997	15,595	14,095	15,156	
Others Provisions	3,721	-1,056	3,604	3,500	3,500	
Total Provisions	32,153	19,942	19,199	17,595	18,656	
PBT	10,357	12,229	21,307	32,914	42,209	
Tax	5,231	3,736	6,463	8,294	10,637	
PAT (Pre-Extra ordinaries)	5,126	8,492	14,843	24,620	31,573	
Extra ordinaries (Net of Tax)	4,583	2,209	1,389	0	0	
Reported Profits	9,709	10,701	16,233	24,620	31,573	
Dividend	0	1,237	4,959	2,462	3,157	
Retained Profits	9,709	9,464	11,273	22,158	28,415	

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Equity Capital	24,695	24,740	24,797	24,797	24,797	
Reserves & Surplus	1,63,038	1,74,737	1,90,487	2,12,645	2,41,060	
Stock option outstanding	0	0	0	0	0	
Borrowed Funds	8,85,558	8,52,012	8,30,435	9,63,304	11,46,332	
Deferred tax liabilities	249	218	233	0	0	
Preference Shares	0	0	0	0	0	
Current Liabilities & Provisions	16,178	17,314	17,670	19,347	21,193	
Total Liabilities	10,89,717	10,69,022	10,63,621	12,20,093	14,33,381	
Net Advances	8,70,303	8,24,694	7,51,546	8,45,772	10,55,805	
Investments	88,721	1,19,169	1,43,662	1,22,113	1,09,901	
Cash & Bank Balances	84,270	79,704	1,27,489	95,617	76,493	
Loans and Advances	1,134	637	1,312	1,378	1,447	
Other Current Assets	17,044	18,239	10,721	1,26,205	1,60,605	
Fixed Assets	4,126	4,012	2,324	2,441	2,563	
Miscellaneous Expenditure	7,767	8,120	7,927	7,927	7,927	
Deferred Tax Assets	16,353	14,446	18,641	18,641	18,641	
Total Assets	10,89,717	10,69,022	10,63,621	12,20,093	14,33,381	

Source: Company, JM Financial

Key Ratios					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Growth (YoY) (%)					
Borrowed funds	-5.7%	-3.8%	-2.5%	16.0%	19.0%
Advances	-4.8%	-5.2%	-8.9%	12.5%	24.8%
Total Assets	-0.5%	-1.9%	-0.5%	14.7%	17.5%
NII	2.8%	1.0%	13.7%	12.5%	18.3%
Non-interest Income	-80.9%	-306.0%	-124.7%	611.8%	20.0%
Operating Expenses	-5.5%	21.1%	25.2%	19.6%	15.5%
Operating Profits	-14.1%	-24.3%	25.9%	24.7%	20.5%
Core Operating profit	-11.6%	-10.5%	25.6%	22.6%	18.5%
Provisions	41.7%	-38.0%	-3.7%	-8.4%	6.0%
Reported PAT	-42.9%	10.2%	51.7%	51.7%	28.2%
Yields / Margins (%)					
Interest Spread	4.59%	4.69%	5.38%	6.26%	7.19%
NIM	5.62%	5.75%	6.61%	7.29%	7.81%
Profitability (%)					
ROA	0.89%	0.99%	1.52%	2.16%	2.38%
ROE	5.8%	5.5%	7.8%	10.9%	12.5%
Cost to Income	30.5%	41.3%	41.2%	40.2%	39.1%
Asset quality (%)					
Gross NPA	5.90%	4.21%	4.92%	3.23%	2.57%
LLP	2.94%	1.85%	1.80%	1.54%	1.41%
Capital Adequacy (%)					
Tier I	18.79%	19.70%	22.10%	20.93%	19.80%
CAR	23.80%	22.90%	24.52%	23.14%	21.78%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
NII / Assets	5.39%	5.51%	6.35%	6.67%	6.79%
Other Income / Assets	0.21%	-0.44%	0.11%	0.72%	0.75%
Total Income / Assets	5.60%	5.08%	6.46%	7.39%	7.54%
Cost / Assets	1.71%	2.10%	2.66%	2.97%	2.95%
PPP / Assets	3.89%	2.98%	3.80%	4.42%	4.59%
Provisions / Assets	2.94%	1.85%	1.80%	1.54%	1.41%
PBT / Assets	0.95%	1.13%	2.00%	2.88%	3.18%
Tax rate	50.5%	30.6%	30.3%	25.2%	25.2%
ROA	0.89%	0.99%	1.52%	2.16%	2.38%
Leverage	5.8	5.4	4.9	5.1	5.4
ROE	5.8%	5.5%	7.8%	10.9%	12.5%

Source: Company, JM Financial

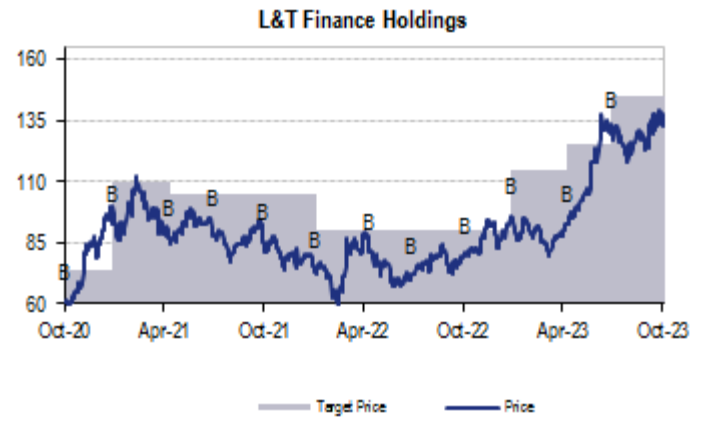
Valuations					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Shares in Issue	2,469.5	2,474.0	2,479.7	2,479.7	2,479.7
EPS (INR)	3.9	4.3	6.5	9.9	12.7
EPS (YoY) (%)	-53.6%	10.0%	51.3%	51.7%	28.2%
P/E (x)	33.8	30.7	20.3	13.4	10.4
BV (INR)	76	81	87	96	107
BV (YoY) (%)	3.7%	6.1%	7.7%	10.3%	12.0%
P/BV (x)	1.75	1.65	1.53	1.39	1.24
DPS (INR)	0.0	0.5	2.0	1.0	1.3
Div. yield (%)	0.0%	0.4%	1.5%	0.7%	1.0%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
20-Jan-20	Buy	140	
20-Jul-20	Buy	72	-48.6
24-Oct-20	Buy	74	2.8
18-Jan-21	Buy	110	48.6
2-May-21	Buy	105	-4.5
19-Jul-21	Buy	105	0.0
22-Oct-21	Buy	105	0.0
24-Jan-22	Buy	90	-14.3
4-May-22	Buy	90	0.0
20-Jul-22	Buy	90	0.0
24-Oct-22	Buy	90	0.0
17-Jan-23	Buy	115	27.8
2-May-23	Buy	125	8.7
20-Jul-23	Buy	145	16.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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